INTERIM REPORT

NESTLÉ (MALAYSIA) BERHAD

(110925-W)

(Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 31 December 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2010

	3 months ended 31 December		12 months ended 31 December	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue - Sales of goods	963,893	950,632	4,026,319	3,744,233
Cost of sales	(636,133)	(605,366)	(2,682,027)	(2,462,739)
Gross profit	327,760	345,266	1,344,292	1,281,494
Operating expenses	(277,918)	(240,742)	(856,801)	(820,505)
Operating profit	49,842	104,524	487,491	460,989
Interest costs	(4,826)	(5,470)	(21,669)	(21,123)
Interest income	15	4	35	35
Share of post tax profit of an associate	(27)	117	(113)	360
Profit before tax	45,004	99,175	465,744	440,261
Tax expense	(5,745)	(12,951)	(74,346)	(88,468)
Profit after taxation	39,259	86,224	391,398	351,793
Minority interests	-	-	-	-
Profit after tax and minority interest	39,259	86,224	391,398	351,793
Net profit for the period	39,259	86,224	391,398	351,793
Other comprehensive income, net of tax				
Cash flow hedge	241	(1,207)	4,125	2,705
Defined benefit plan actuarial gains	2,384	1,776	2,384	1,776
Total other comprehensive income for the period, net of tax	2,625	569	6,509	4,481
Total comprehensive income for the period	41,884	86,793	397,907	356,274
Basic earnings per share (sen)	16.74	36.77	166.91	150.02
Dividend per share - net (sen)	115.00	100.00	165.00	150.00

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
Net assets per share attributable to equity holders (RM)	2.62	2.42

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	As at 31.12.2010 RM'000	As at 31.12.2009 RM'000
Non current assets		
Property, plant and equipment	897,505	860,253
Intangible assets	61,024	61,024
Investment in an associate	3,189	3,467
Deferred tax assets	10,441	7,379
Receivables, deposits and prepayments	22,653	22,923
	994,812	955,046
Current assets		
Receivables, deposits and prepayments	354,303	370,421
Inventories	380,539	354,381
Current tax assets	344	7,118
Cash and cash equivalents	48,683	25,751
	783,869	757,671
Total assets	**1,778,681**	**1,712,717**
Financed by:		
Capital and reserves		
Share capital	234,500	234,500
Reserves	378,836	332,679
Total equity	613,336	567,179
Non current liabilities		
Loans and borrowings	326,298	328,039
Employee benefits	42,537	48,411
Deferred tax liabilities	75,595	70,309
	444,430	446,759
Current liabilities		
Payables and accruals	623,269	622,228
Loans and borrowings	87,256	56,458
Taxation	10,390	20,093
	720,915	698,779
	1,778,681	**1,712,717**
Net assets per share attributable to shareholders (RM)	2.62	2.42

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 31 DECEMBER 2010

	Non Distributable		Distributable	
	Share capital and share premium	*Hedging reserve*	*Retained profits*	**Total Equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January 2009	267,500	(2,814)	251,069	515,755
Total comprehensive income for the period	-	2,705	353,569	356,274
Dividends paid:				
- 2008 Final	-	-	(187,600)	(187,600)
- 2009 Interim	-	-	(117,250)	(117,250)
At 31 December 2009	267,500	(109)	299,788	567,179
At 1 January 2010	267,500	(109)	299,788	567,179
Total comprehensive income for the period	-	4,125	393,782	397,907
Dividends paid:				
- 2009 Final	-	-	(234,500)	(234,500)
- 2010 Interim	-	-	(117,250)	(117,250)
At 31 December 2010	267,500	4,016	341,820	613,336

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED 31 DECEMBER 2010

	12 months ended 31.12.2010 RM'000	12 months ended 31.12.2009 RM'000
Cash flows from operating activities		
Profit before taxation	465,744	440,261
Adjustments for non-cash items:		
Amortisation, depreciation and impairment	102,621	87,952
Net interest expense	21,634	21,088
Less:		
(Increase)/Decrease in working capital	(7,785)	161,720
Income tax paid	(77,221)	(81,794)
Others	3,933	6,290
Net cash generated from operating activities	508,926	635,517
Cash flows from investing activities		
Purchase of property, plant and equipment	(143,915)	(257,131)
Others	3,527	860
Net cash used in investing activities	(140,388)	(256,271)
Cash flows from financing activities		
Interest paid	(21,669)	(21,123)
Proceed from/(Repayment of) borrowings	7,047	(58,816)
Dividend payment	(351,750)	(304,850)
Net cash used in financing activities	(366,372)	(384,789)
Net increase in cash and cash equivalents	2,166	(5,543)
Cash and cash equivalents as at 1 January	20,147	25,690
Cash and cash equivalents as at 31 December	22,313	20,147

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

INTERIM FINANCIAL REPORT

Notes:

1 Basis of preparation

This interim financial report is based on the audited financial statements for the quarter ended 31 December 2010 and has been prepared in compliance with *FRS 134: Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB") and the Bursa Malaysia Securities Berhad Listing Requirements. The accounting policies and methods of computation adopted by the Group in this report are consistent with those adopted in the financial statements for the year ended 31 December 2009 except for those standards, amendments and interpretatations which are effective from the annual period beginning 1 July 2009 and 1 January 2010. The adoption of these standards, amendments and interpretations have no material impact to these interim financial statments except for the adoption of the following standards which impact the presentation and disclosure aspect:
FRS 8 - Operating Segments
FRS101 - Presentation of Financial Statements (revised)

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

2 There was no qualification made on the preceding audited financial statements.

3 The Group's operations are affected by economic cycles and festive seasons.

4 Items affecting assets, liabilities, equity, net income or cash flow.

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group.

a. Fixed Assets

As at the end of this quarter, the Group has acquired / disposed the following assets:

	3 months ended 31 December 2010		12 months ended 31 December 2010	
	Assets acquired RM'000	Assets disposed RM'000	Assets acquired RM'000	Assets disposed RM'000
Land	37,172	-	37,172	
Building (improvements and additions)	13,554	6	15,837	10
Plant and machinery	12,046	3,721	54,215	3,781
Tools and furniture	17,937	1,403	28,793	1,408
Motor vehicles	1,001	-	2,317	-
Information system	5,109	55	6,825	87
	86,819	5,185	145,159	5,286

* Inclusive of assets acquired through finance lease amounting to RM1,244,000 during the year.

b. Intangible Assets

There was no capitalisation of intangible assets in this quarter.

5 Changes in estimates

There were no significant changes in estimates for prior periods that have materially affected the results of this quarter.

6 Debts and equity security

There is no issuance of debts and equity security in this quarter.

7 Dividends paid

Dividends paid during the reporting period are as follows:

	12 months ended 31 Dec 2010 (RM'000)
Interim dividend for the financial year ended 31 December 2010	
50.00 sen per share under single-tier system	117,250
Final dividend for the financial year ended 31 December 2009	
100.00 sen per share (single-tier)	234,500
Total	351,750

8 Operating segment

FRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board.

The Group is focused in two areas of activity, Food & Beverages and Others which includes Nutrition and Nestle Professional.

	12 months ended 31 December 2010		
	Food & Beverages RM'000	**Others RM'000**	**Total RM'000**
Segment revenues and results			
Sales	3,347,644	678,675	4,026,319
Earnings before interest and tax	393,490	103,465	496,955

	12 months ended 31 December 2009		
	Food & Beverages RM'000	**Others RM'000**	**Total RM'000**
Segment revenues and results			
Sales	3,083,941	660,292	3,744,233
Earnings before interest and tax	350,385	118,908	469,293

9 Valuation of property, plant and equipment

There were no changes or amendments to the valuation of property, plant and equipment from the previous annual financial statements.

10 Events subsequent to balance sheet date

There were no subsequent events to the balance sheet date.

11 Changes in the composition of the Group

There were no changes in the composition of the Group in this quarter.

12 Changes in contingent liabilities

As of the date of this report, there were no contingent liabilities to the Group.

13 Related party transactions

a. Nestle purchases raw materials from Phytes Biotek Sdn. Bhd. (PBSB) and Malaysia Cocoa Manufacturing Sdn. Bhd. (MCM) as well as acquires services from Sanicare Hygiene Services Sdn Bhd. Biotropics Malaysia Berhad is the holding company of PBSB and Felda Global Ventures is an associate company of MCM. Mohd Rafik bin Shah Mohamad is deemed interested via his directorships in Nestle (Malaysia) Berhad, Biotropics Malaysia Berhad, Felda Global Ventures, Sanicare Hygiene Services Sdn Bhd and Cold Chain Network (M) Sdn Bhd.

Purchase of raw materials and services from the above three companies as follows:

	3 months ended 31 Dec 2010 (RM'000)	**12 months ended 31 Dec 2010 (RM'000)**
Phytes Biotek Sdn. Bhd. (PBSB)	8	13
Sanicare Hygiene Services Sdn. Bhd	18	54
Cold Chain Network (M) Sdn Bhd	1,607	2,948
Malaysia Cocoa Manufacturing Sdn. Bhd. (MCM) *	14,814	38,104

* The amount shown for MCM is from 3 May 2010 - 31 December 2010 as Mohd. Rafik bin Shah Mohamad was only appointed as director of Felda Global Ventures with effect from 3 May 2010.

b. Transactions related to Nestlé S.A. and companies owned by Nestlé S.A. are as follows:

	3 months ended 31 Dec 2010 (RM'000)	**12 months ended 31 Dec 2010 (RM'000)**
IT shared service	4,895	21,376
Net interest expense	3,046	11,259
Purchases of goods and services	77,904	335,400
Sales of finished goods	198,856	843,105
Royalties	38,187	159,060

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 4, 2010 vs Quarter 4, 2009)

In the fourth quarter of 2010, the Group registered a turnover of RM 963.9 million, 1.4% higher than the same period last year.

From a domestic sales perspective, the Group drove operating efficiencies in the value chain to reduce cost and improve freshness of products in the market place. The resulting destocking in some categories of products at distributor warehouses had an adverse one time impact on sales.

Exports performance continued with good momentum, leveraging the manufacturing capacity of coffee and coffee creamers.

The sharp increase in prices of the major commodities consumed by the Group impacted the gross profit margin. The average price of cocoa powder in 2010 rose to more than double of previous year's average price, whilst skimmed milk powder was higher by about 20%.

The combination of higher investments in brand building activities, the timing of some fixed overhead expenses (as announced in the previous quarter's review) and the increase in commodity costs resulted in a lower profit margin for the quarter.

2 Review of performance (Year-to-date, 2010 vs Year-to-date, 2009)

For the year ended 31 December 2010, the Group posted a turnover of RM4.0 billion, 7.5% higher than the same period last year. This good performance was in line with the positive developments in both the local and global economies.

With the improvement of the Malaysian economy, most of the domestic product categories continued to perform well. This was quite evident for Nestle Liquid Drinks and Chilled Dairy which achieved a double digit growth. From a channel perspective, both retail and out of home sales enjoyed good growth.

The Group's decision to invest over the past three years in manufacturing capacity is paying off. With these investments, new production lines for soluble coffee and coffee creamers have allowed the Export business to expand and capture strong demand overseas. In particular the exports to Southeast Asia countries have positively contributed to the robust double digit growth of the export business.

During the year, the Group remained focused on managing unfavourable trends in input cost. In 2010, the average price of cocoa powder more than doubled of previous year while skimmed milk powder was higher by 20%. The Group's improvement initiatives including Nestle Continuous Excellence (NCE) with a focus on zero waste and streamlining of operations as well as the stronger Ringgit provided some relief against the sharp increase in commodity costs.

For the year under review, the Group continued to invest in its brands to maintain its leadership and gain market shares. The "MILO with Protomalt" as well as the "MILO Play More Learn More" campaigns have further strengthened the MILO brand image among consumers. NESCAFÉ CLASSIC and NESCAFÉ 3in1 re-launched new improved products with strong media support which resulted in market share gain. Despite strong investment in brand building activities, our operational expenses were well below budget.

From a bottom line perspective, the profit before tax stood at RM465.7 million, a 5.8% increase versus previous year translating in a slight margin reduction of 20bps.

The Halal tax incentives related to the substantial capital investments of the last three years helped reduce the effective tax rate. Against the same period last year, the net profit increased by 11.3% to RM391.4 million reflecting a 30bps margin improvement.

3 Variation of results against previous quarter (Quarter 4, 2010 vs. Quarter 3, 2010)

The Group's turnover at RM963.9 million contracted by 2.7% versus the previous quarter.

This was mainly due to the strengthening of the Ringgit against the US Dollar which negatively impacted export sales and the Group's initiative for operational efficiencies in the value chain to reduce cost and improve freshness of products in the market place. The resulting destocking in some categories of products at distributor warehouses had an adverse one time impact on sales.

As indicated in the previous quarter review, and consistent with prior years, more brand building activities were initiated in the last quarter and higher fixed expenses were incurred due to timing. The high operating expenses resulted in lower profit margin before tax.

4 Current year prospects

After an encouraging 2010, the local economy is expected to further grow, leveraging on the Economic Transformation Plan recently presented by the government. The sharp increase in the global commodity prices and the government's gradual reduction in food and fuel subsidies which put pressure on the Group's input costs, remains a concern. The Group will continue to closely monitor the development of commodity prices, evaluate and adjust its pricing policy accordingly. Where possible the Group will leverage operational efficiencies and cost savings initiatives to avoid passing on price increases to consumers.

In 2011, the Group will take advantage of the improvement in both the local and international economies to further grow both top and bottom line. It will also increase its marketing investment in line with Nestle's objective of being the leader in Nutrition, Health & Wellness, as well as an industry benchmark for its financial performance and being trusted by all stakeholders.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

	Taxation for this quarter 31.12.2010 RM'000	Cumulative year 31.12.2010 RM'000
- Current year tax	12,741	76,691
- Prior year tax	(2,399)	(2,399)
- Deferred tax for the current period	(4,597)	54
	5,745	74,346

7 Unquoted investments

Not applicable in this quarter.

8 Quoted investments

Not applicable to the Group.

9 Status of corporate proposals

There were no corporate proposals in this quarter.

10 Borrowings

Group Borrowings and Debt Securities are:

	As at 31.12.2010 RM'000
Short term - Unsecured loans	
Revolving credit	58,000
Bank overdraft	26,370
Short term - Secured loans	
Finance lease (payable within a year)	2,886
Total short term loans	87,256
Long term - Unsecured loans	
Intra group loans	319,264
Long term - Secured loans	
Finance lease	7,034
Total long term loans	326,298

All the above debts are in Ringgit Malaysia.

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 31.12.2010 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Ageing
Foreign exchange contracts	353,221	3,026	Less than 1 year
Commodity futures	22,993	1,993	Less than 1 year

12 Material litigation

As of the date of this report, there were no material litigations against the Group.

13 Dividend

The Board of Directors has proposed to declare a final dividend of 115.00 sen per share, under single-tier system (2009: 100.00 sen per share) in respect of financial year ended 31 December 2010. If approved by the shareholders at the Annual General Meeting to be held on 21 April 2011, this dividend will be paid on 26 May 2011 to shareholders whose names appear on the Record of Depositors on 12 May 2011. Under current rules, single-tier dividends are not taxable in the hands of shareholders. A Depositor shall qualify for entitlement only in respect of:
a. shares transferred into the Depositor's Securities Account before 4.00 p.m. on 12 May 2011 in respect of ordinary transfers.
b. shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad.

14 Realised and unrealised profit disclosure

	As at 31.12.2010 RM'000	As at 30.09.2010 RM'000
Total retained profits of the Group and its subsidiaries:		
Realised	439,849	501,330
Unrealised	(98,219)	(84,133)
Total share of retained profits from an associated company:		
Realised	563	613
Unrealised	(373)	(383)
Total retained profits as per consolidated accounts	341,820	417,427

15 Basic earnings per share

a. Basic earnings per share

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders of RM 391.4 million (RM 351.8 million in December 2009) and the number of ordinary shares outstanding of 234.5 million (234.5 million in December 2009)

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARD

Mohd. Shah Bin Hashim (LS0006824)

Company Secretary

Date : February 24, 2011